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FM AMEMBASSY KINSHASA  
TO RUEHC/SECSTATE WASHDC 5002  
INFO RUEHXR/RWANDA COLLECTIVE  
RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY  
RUEAIIA/CIA WASHDC  
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK  
RHMFISS/HQ USEUCOM VAIHINGEN GE

C O N F I D E N T I A L SECTION 01 OF 02 KINSHASA 001621

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E.O. 12958: DECL: 10/17/2016

TAGS: [EMIN](#) [ETRD](#) [PGOV](#) [CG](#)

SUBJECT: GECAMINES' CHIEF HAS UNREALISTIC VISION

REF: A. KINSHASA 1500

[1](#)B. KINSHASA 216

Classified By: ECONOFF WBRAFMAN FOR REASONS 1.4 b/d.

[1](#)1. (C) Summary. Paul Fortin, CEO of the DRC's copper and cobalt mining parastatal, Gecamines, remains optimistic about the future of Gecamines, perhaps overly so, given the grave challenges his organization faces. Rather than try to resurrect a nearly moribund mining company, Fortin may have more positive results by focusing on managing the significant profit-making potential of several of Gecamines' joint-ventures. End summary.

[1](#)2. (SBU) EconOff and Economic Analyst met with Gecamines' CEO, Canadian lawyer Paul Fortin, at Gecamines' office in Lubumbashi, Katanga on September 27. Fortin discussed some of Gecamines' controversial contracts, its current assets and liabilities, and his vision for helping Gecamines to recover from its economic misfortunes.

#### CURRENT JOINT-VENTURES

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[1](#)3. (C) Gecamines now has about 40 joint-venture concession agreements, with a range of terms and types of partners. Fortin was circumspect, though a bit glib, in discussing these existing mining agreements, particularly those entered into prior to the installation of the transition government in June 2003, and more recently, under former President Laurent Kabila. Many have questioned the legality of these contracts, notably in the DRC's Parliamentary Lutundula Commission report, which examined nearly all of them.

[1](#)4. (C) When asked whether he thought some of the pre-transition contracts were entered into illegally, Fortin said that some companies had "paid a bit more" to get agreements with the former government of Laurent Kabila. However, he did not seem bothered by the borderline legality of sweetheart deals. He explained that, in retrospect, Gecamines made some bad deals because of the DRC's pressing need for cash during conflict years. Moreover, the currently high commodity prices were unforeseen at the time. For example, the price of copper has nearly doubled in the last year. Fortin did say many of the contracts with Gecamines will be re-examined, but that he hopes that a governmental commission will perform this task, instead of a politicized parliamentary commission.

#### NEW DEALS ON HOLD

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[1](#)5. (C) Gecamines has entered into one deal and launched one tender offer since Fortin's tenure began in January 2006 (reftel A), although the World Bank has asked Gecamines and

other DRC parastatals and agencies to suspend entering into any new contracts during the remainder of the government transition. This request has been made to allow for complete examination of existing agreements and to prevent the signing of any other questionable transactions. The one deal was completed in late March with COVEC, a Chinese mining company that obtained a 62 percent interest in a now-closed copper Katanga copper mine known as Luisha. Fortin said that the joint-venture, begun before he became CEO, includes a USD 60 million COVEC loan to Gecamines.

¶16. (C) Gecamines' tender offer is for rights to Kipushi, a copper/zinc mine in Katanga, despite Gecamines' dispute with South African company Kumba Resources and Canadian company First Quantum over rights to Kipushi (reftel B). Fortin says that in 2001, Gecamines and Kumba (later joined by Adastra/First Quantum) entered into what amounted to an "agreement to agree" to exploit Kipushi. However, he says that Kumba/First Quantum never took any steps beyond conducting a feasibility study of very little value, and that the parties never reached any further agreement. Fortin said that he obtained legal advice that supports his decision to launch the tender.

#### MANY CHALLENGES

¶17. (C) Fortin also discussed the many management challenges he faces at the helm of Gecamines, including its heavy debt, its employees' demoralization, his two sets of bosses and overloaded payrolls. Most significant is Gecamines' precarious financial situation. Fortin says that Gecamines is currently USD 3.4 billion in debt, most of which is due to commercial creditors, but some of which is due to its

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remaining 10,000 employees for salaries and benefits. Fortin acknowledges that Gecamines must further reduce its employee rolls. There is so little work that many do not even bother showing up regularly. However, he said that Gecamines cannot afford to pay the severance packages for all the employees that should be laid off, and that, therefore, it is easier to keep them on the payrolls. A reliable NGO contact involved in the mining sector told EconOff that Gecamines has increased the frequency with which it pays its employees to about every other month.

¶18. (C) Fortin described Gecamines as a psychologically and organizationally "paralyzed company" and its employees "easily frightened (and) shamed" after years of neglect. Before the late 1980s, Gecamines was a significant regional source of pride and employment and a key driver of the national economy. Fortin said that having two sets of bosses also complicates the management structure. He must report to the presidency, and to SOFRECO, the consulting firm that directly hired and placed Gecamines' current management team under contract with COPIREP, the WB-funded DRC agency responsible for parastatal reform.

#### FORTIN'S PROPOSED SOLUTIONS

¶19. (C) Fortin offered several solutions for easing Gecamines' woes, including obtaining external debt relief, increasing production and export, and launching a public offer of Gecamines' stock. He said that he has hit walls in his attempts to get the GDRC to help pay Gecamines' bills, despite its promise to form a commission to address the issue. Hence, Fortin seems to have resorted to passing around the hat to pay debts, for example asking EconOff during the meeting for USG assistance and solutions. Fortin hopes to get additional World Bank funding to help pay severance packages, as it did for about 10,500 Gecamines retirees from 2003 to 2004, and would like (comment: unrealistically) to obtain debt relief through the Paris or London Club processes. In addition, Fortin says that his

ultimate goal is to partially privatize Gecamines via an Initial Public Offering, reducing the government share to 55 percent.

¶10. (C) Despite the formidable challenges, Fortin is optimistic about Gecamines' future. He noted that its 2006 copper production (almost exclusively from tailings) has increased over 2005's total of 16,000 tons. He is confident this trend can continue, even though the company is producing a fraction its 476,000 ton maximum in 1986, and is limited by outdated equipment, technology and staff expertise. (Note: It is unclear whether it is improved management or increased commodity prices that are driving Gecamines' increased production. End note.) Fortin said that Gecamines must continue to exist as a mining entity not only because of its potential revenue, but also because Gecamines is part of the DRC's patrimony and a source of regional pride - a common rationale for keeping alive many DRC parastatals, such as the barely-surviving MIBA, the diamond mining parastatal based in Mbuji-Mayi, Eastern Kasai. Fortin claims Gecamines revenues may be the only way to fund social development projects for many of its employees and retirees, despite the fact that mining, companies, the USG, the UK and other donors are increasingly engaged in that task.

COMMENT

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¶11. (C) Rather than trying to remake Gecamines, the region and the country may be better served if Fortin eliminates the company's mining operations and focuses only on its role as a holding company. Political and economic conditions do not suggest that Gecamines should do otherwise. End comment.  
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